



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

For Immediate Release
Monday, Nov. 17, 2003

Grassley, Baucus Seek Information From Firm on Tax Dealings

WASHINGTON -- Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today sent a letter to an accounting firm that told the committee very little about its tax dealings, but is marketing a questionable tax avoidance device, according to a newspaper account.

Last month, the senators sent a series of accounting firms and law firms a detailed letter seeking information about their involvement in and knowledge of tax shelters. Only one accounting firm -- Grant Thornton -- sent a largely unresponsive letter. At about the same time, The New York Times described a tax shelter allegedly marketed by the firm.

Grassley said, "I'm unhappy with the lack of an adequate response from this firm. There could be both insult and injury here. This firm looks like it might not only play fast and loose with the tax code, but it also might feel unaccountable to anyone who questions its behavior. The honeymoon's over."

Baucus said, "Tax shelters undermine the confidence of the American people in the fairness of the tax system. It is unacceptable for a professional firm to brush aside a legitimate inquiry. The ethics and integrity of the accounting profession has been seriously called into question with the corporate scandals of the past few years. Such evasive responses simply reinforce concerns that the accounting profession is hiding something."

November 17, 2003

Mr. Dean Jorgensen
National Tax Office
Grant Thornton LLP
1900 M St. NW, Suite 300
Washington, D.C. 20036

Dear Mr. Jorgensen:

On October 1, 2003, the Finance Committee requested information from you regarding Grant Thornton's involvement in and knowledge of tax shelters. Your response to our request, in your five-paragraph letter dated October 15, 2003, conveyed your general thoughts on the tax shelter problem but was largely unresponsive to our specific questions. Grant Thornton was the only accounting firm that chose to submit such an unresponsive letter to the Committee. Therefore, we again request detailed written responses to each of the questions asked in our October 1, 2003, letter (enclosed).

Additionally, we are troubled by the apparent inconsistency between your October 15, 2003, letter and information about Grant Thornton included in a recent article in the *New York Times* ("The Secret Life of a Retirement Account," Nov. 11, 2003, sec. C, p. 1, col. 2). Specifically, in your October 15, 2003, letter to the Committee, you state "Grant Thornton has always sought to comply with the applicable law relating to tax shelter registration, list maintenance and disclosure rules and has appropriate processes in place to oversee its tax compliance and tax consulting services. Nonetheless, the *New York Times* describes a tax shelter (GIFT - Generating Income Free of Tax) involving the abuse of Roth IRA plans that allegedly has been marketed by your firm.

Therefore, we also request detailed written responses to each of the following:

1. Provide a detailed description of the GIFT strategy, including the legal basis for the tax treatment of each step in the transaction.
2. Provide a list of investors who have participated in the GIFT shelter or similar transactions with which your firm was involved.
3. The *New York Times* article refers to an unsigned letter to William C. Ross, dated January 26, 2000, in which your firm allegedly stated that "the proposed structure does not violate the self-dealing rules." Please provide a copy of this letter as well as copies of any other unsigned letters, opinion letters, or legal memoranda prepared by your firm in relation to the GIFT strategy or any similar transaction.
4. Provide any other marketing materials (including confidentiality agreements) prepared by your firm, or obtained by your firm, relating to the GIFT strategy or any similar transaction.
5. Describe the genesis and development of the GIFT strategy.
 - 1) Who first thought of the strategy?
 - 2) What individuals or groups were responsible for developing the strategy?
 - 3) Was the strategy developed in the context of a specific client relationship and a specific fact pattern, or was it developed "in a vacuum" to be marketed as a transaction that could be used by clients?

6. What are your firm's standard procedures for vetting tax advice and issued tax opinions? Were the GIFT strategy and any accompanying opinion letters vetted in accordance with those procedures? What steps have been taken to insure that Grant Thornton's tax advice with respect to other tax shelters or aggressive transactions is properly vetted within the firm?

7. If it is still your opinion that the GIFT strategy does not constitute improper self-dealing, please describe your understanding of the kinds of activities that would be covered by the self-dealing prohibition.

8. In your opinion, is the GIFT strategy consistent with the spirit of the Roth IRA rules? If so, please explain.

9. Provide specific information on your fee arrangements with respect to the GIFT strategy and any similar transactions. In addition, please provide an estimate of the ratio of revenues from the GIFT strategy and other tax shelters to the total tax services revenues of your firm.

10. Describe the nature of your firm's relationship (or any partners' relationships) with the Raymond Creal accounting firm. Please describe the role that the Raymond Creal accounting firm has played in the GIFT strategy (with respect to William C. Ross or any other person).

11. In our original letter of October 1, 2003, we requested information pertaining to your firm's participation in any litigation with respect to Grant Thornton's provision of tax services. No information was provided. In addition to the information originally requested, your forthcoming response should be particularly detailed with respect to the lawsuit by Mr. Ross that is described in the *New York Times* article. In this regard, please provide copies of all court documents relating to that lawsuit, including all documents referenced in the *New York Times* article.

We request detailed written responses by December 1, 2003. Responses to each question should be separately enumerated. If we do not receive adequate responses by such time, we intend to pursue this matter through whatever means we have at our disposal, including the issuance of a subpoena.

Sincerely,

Max Baucus
Ranking Member

Charles E. Grassley
Chairman

Enclosure

